



Preparing for **Tomorrow** ↗

**Operations Summary**  
Fiscal Year Ended **6.30.08**

California Public Employees' Retirement System  
A Component Unit of the State of California

CalPERS

## CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with net assets of approximately \$237.9 billion as of June 30, 2008.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.6 million people and 2,619 school and public employers. The System also operates eight Regional Offices located in Fresno, Glendale, Orange County, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek.

Led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members, CalPERS membership consists of 1,126,133 active and inactive members and 476,252<sup>1</sup> retirees, beneficiaries, and survivors from State, school, and public agencies.

Established by legislation in 1931, the System became operational in 1932 for the purpose of providing a secure retirement to State employees who dedicate their careers to public service. In 1939, new legislation allowed public agency and

classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for State employees in 1962, and five years later, public agencies joined the Health Program on a contract basis.

A defined benefit retirement plan, CalPERS provides benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death.

Today CalPERS offers additional programs, including long-term care insurance, a member home loan program, a deferred compensation retirement savings plan, and member education services. Learn more at our Web site at [www.calpers.ca.gov](http://www.calpers.ca.gov).

<sup>1</sup> This figure includes those retirees, beneficiaries and survivors who receive either a monthly allowance or a one-time-only payment. For fiscal reporting purposes, the Comprehensive Annual Financial Report, in most instances, includes only those who receive a monthly allowance.

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## President's Message



Rob Feckner  
*CalPERS Board of Administration President*

I am pleased to present the CalPERS Operations Summary and Comprehensive Annual Financial Report describing our accomplishments for the fiscal year ended June 30, 2008.

The Board welcomed three new members during the 2007-08 fiscal year: Henry Jones, elected representative for retirees; Louis Moret, appointed by the California Assembly Speaker and Senate Rules Committee; and Anne Sheehan, appointed by the State Personnel Board. (Ms. Sheehan has accepted a position as Director of Corporate Governance with the California State Teachers' Retirement System, and will be leaving her CalPERS trustee position effective January 2009.)

The downturn in the financial markets and continuing economic conditions proved difficult for any investor. While our well-planned strategy of

diversification helped to avert some investment loss, we ended the fiscal year with a decline in our investment portfolio of 5.1 percent.

The impact of this year's loss is mitigated by four consecutive years of double-digit gains. On a five-year basis, our average annual return is 10.7 percent — well above the 7.75 percent return objective to finance liabilities. We have enjoyed a positive return for 21 out of the last 25 years. The decline in net assets — to \$237.9 billion as of June 30, 2008 — will have no immediate impact on employer rates.

As the new fiscal year begins, we will take advantage of the eventual recovery of the financial markets. Our portfolio is well diversified. Just last year we further diversified by adopting a new Inflation-Linked Asset Class composed of forestland, inflation-linked bonds, commodities, and infrastructure. We also increased our allocation to private equity, and expanded our real estate portfolio — with a tilt toward international investments. As the Board modifies investment strategies, our first priority is always our fiduciary responsibility to provide the best long-term, risk-adjusted returns to members and beneficiaries.

In keeping with our commitment to environmental investing, we now have nearly \$1 billion in clean energy and technology investments. We participated in key environmental investment conferences and worked with the United Nations, the Securities and Exchange Commission, and the U.S. Senate to develop new policies and regulations for improved transparency and disclosure of environmental risks. We will continue to leverage our leadership in the global marketplace to demonstrate that being environmentally responsible is good business.

We continued to advocate for corporate governance reforms, with proxy access remaining a key focus. We added two principles to our Global

Principles of Accountable Corporate Governance: a new environmental principle intended to persuade companies to disclose and act upon climate risks that could diminish investment returns if left unaddressed; and a diversity principle that recommends corporations include diversity as one of the factors used to assess corporate board nominees.

We are always looking for new ways to provide better service to our members and employers. During the year, we made improvements to our Customer Contact Center to reduce wait times. On a personal note, I spent a day in the Center to observe a typical day. I was impressed with the valuable work performed by our staff and the quality of service they provide our members.

We are building an integrated database platform — my|CalPERS — which will dramatically change the way we conduct future business. Once launched, my|CalPERS will provide a one-stop online shop for members and employers to access retirement, health care, and financial information quickly and reliably. my|CalPERS uses the latest technology to provide members and employers easy-to-use Internet-based products and services.

As we conduct more business using the Internet, we are aware of the imperative for a comprehensive enterprise security and privacy plan. During the year, our Privacy Protection and Security Task Force conducted a system-wide review of the way we manage confidential information and recommended steps we can take to enhance data security. In addition, we assessed our information security processes, policies, and procedures and compared them to industry best practices. As a result, we created an enterprise vision that will guide, support, and sustain future security enhancements.

We are in our second year with the California Employers' Retiree Benefit Trust Fund (CERBTf), which assists employers in reducing future liabilities for retiree health benefits and other OPEB (other post-employment benefits) costs. This year, for

the first time, all local government agencies could participate, and as of June 30, 2008, more than 80 agencies joined CERBTf. The Trust assets now total nearly \$650 million.

I am very pleased to report that HMO health premiums for next year will only go up by an average of 6.6 percent.

For our retirees, Medicare HMO rates have been held back to average increases of less than one-third of 1 percent. Premiums for our self-funded PPOs — PERS Choice and PERSCare — will stay the same, while PERS Select members will pay 3 percent less.

We are pleased with the outcome of this year's negotiations with health plans, and we will press forward with efforts to obtain the best price, quality, and access possible for 2010.

At the close of the fiscal year, CalPERS Chief Executive Officer Fred Buenrostro retired, and Chief Investment Officer Russell Read departed to start his own investment firm. The Board initiated recruitments to fill the two positions, and I am pleased to announce the selection of Anne Stausboll as our new CEO. Anne recently served as our Interim Chief Investment Officer, and prior to that, as our Chief Investment Operating Officer. We anticipate filling the CIO position in early 2009.

On behalf of the entire Board, I want to thank our employees for providing outstanding service during these challenging market conditions. We have been a leader in the pension industry for more than seven decades and we have a proven track record in investments, retirement, and health care benefits administration. I'm confident that we have the right tools and the right people to continue to meet our obligations to our members and employers. Together, we can prepare for tomorrow and ensure financial and health security for those we serve.

Rob Feckner  
*CalPERS Board President*

# Financial Highlights

## Public Employees' Retirement Fund<sup>1</sup> (Dollars in Thousands)

	2008	2007
<b>Assets</b>		
Cash & Cash Equivalents	\$420,354	\$319,009
Total Receivables	3,540,653	5,543,412
Total Investments at Fair Value	237,129,465	251,396,742
Securities Lending Collateral	35,177,731	46,337,538
Capital Assets & Other	389,962	397,813
<b>Total Assets</b>	<b>\$276,658,165</b>	<b>\$303,994,514</b>
<b>Liabilities</b>		
Retirement Benefits in Process of Payment, Investment Settlement & Other	\$3,564,955	\$6,534,294
Securities Lending Obligations	35,177,731	46,337,538
<b>Total Liabilities</b>	<b>\$38,742,686</b>	<b>\$52,871,832</b>
<b>Total Net Assets Held in Trust for Pension Benefits</b>	<b>\$237,915,479</b>	<b>\$251,122,682</b>
<b>Additions &amp; Deductions</b>		
	2008	2007
<b>Additions</b>		
Member Contributions	\$3,512,075	\$3,262,699
Employer Contributions	7,242,802	6,442,384
Net Investment (Loss) Income	(12,499,110)	40,748,261
Other	6,202	9,119
<b>Total Additions</b>	<b>(\$1,738,031)</b>	<b>\$50,462,463</b>
<b>Deductions</b>		
Retirement Death & Survivor Benefits	\$10,884,417	\$10,070,555
Refunds	182,415	181,574
Administrative Costs	402,340	278,453
Other Expenses	—	—
<b>Total Deductions</b>	<b>\$11,469,172</b>	<b>\$10,530,582</b>
<b>(Decrease) Increase in Net Assets</b>		
Held in Trust for Pension Benefits	<b>(\$13,207,203)</b>	<b>\$39,931,881</b>

Complete financial information on all the funds administered by CalPERS can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

<sup>1</sup> Differences in the amount shown for investment assets in these financial highlights and the investment portfolio amount reported in the Investments Section of this Summary are due to differences in reporting methods. In accordance with Governmental Accounting Standards Board Statement No. 28, the financial statements include securities lending collateral. Net investment receivables/payables are not included here.





**Front row, seated (from left to right):**

Priya Mathur, Rob Feckner, Charles P. Valdes,  
Debbie Endsley,<sup>1</sup> and Marjorie Berte.

**Back row, standing (from left to right):**

John Chiang, Henry Jones, Bill Lockyer, George Diehr,  
Anne Sheehan, David Gilb, Kurato Shimada, Tony Oliveira,  
and Louis F. Moret.

<sup>1</sup> Representative of Board Member David Gilb.



# Board of Administration

**Rob Feckner, President**

Employee Member (elected by school members)  
Glazing Specialist,  
Napa Valley Unified School District  
*Term Ends: January 15, 2011*

**George Diehr, Vice President**

Employee Member (elected by State members)  
Professor, CSU San Marcos  
*Term Ends: January 15, 2011*

**Marjorie Berte**

Official of Life Insurer<sup>1</sup>  
Retired Vice President,  
California State Automobile Association  
*Term Ends: January 15, 2009*

**John Chiang**

State Controller  
Ex Officio Member

**David Gilb**

Director,  
Department of Personnel Administration  
Ex Officio Member

**Henry Jones**

Retired Member (elected by retirees)  
Retired, Chief Financial Officer,  
Los Angeles Unified School District  
*Term Ends: January 15, 2012*

**Bill Lockyer**

State Treasurer  
Ex Officio Member

**Priya Mathur**

Employee Member (elected by public  
agency members)  
Economist, Bay Area Rapid Transit  
*Term Ends: January 15, 2011*

**Louis F. Moret**

Public Representative<sup>2</sup>  
*Term Ends: January 15, 2012*

**Tony Oliveira**

Elected Official of Local Government<sup>1</sup>  
Reappointed February 8, 2007  
*Term Ends: January 15, 2011*

**Anne Sheehan**

State Personnel Board Member (designated by  
the State Personnel Board)  
*Term Ends: Serves at the pleasure of the SPB*

**Kurato Shimada**

Employee Member (elected by all members)  
Retired, Supervisor of Operations,  
Oak Grove School District  
*Term Ends: January 15, 2010*

**Charles P. Valdes**

Employee Member (elected by all members)  
Retired Counsel,  
Department of Transportation  
*Term Ends: January 15, 2010*

<sup>1</sup> Governor appointee

<sup>2</sup> Appointed jointly by the Speaker of the Assembly  
and the Senate Rules Committee

## Board Committees

In addition to their regular duties, Board Members also serve on permanent and ad hoc committees to review specific programs, projects, or issues and make recommendations to the Board. The following committees were active as of June 30, 2008.

### Benefits & Program Administration

This committee reviews all matters related to benefit program structure, actuarial studies and rate setting, retirement program policy, and administrative issues.

**Kurato Shimada**, *Chair*

**Rob Feckner**, *Vice Chair*

John Chiang

George Diehr

David Gilb

Henry Jones

Priya Mathur

Louis F. Moret

Tony Oliveira

### Health Benefits

This committee oversees the administration of the Public Employees' Medical & Hospital Care Act program and the Public Employees' Long-Term Care Act program.

**Priya Mathur**, *Chair*

**George Diehr**, *Vice Chair*

John Chiang

Rob Feckner

David Gilb

Henry Jones

Bill Lockyer

Tony Oliveira

Anne Sheehan

### Performance & Compensation

This committee studies and evaluates compensation mechanisms and criteria, develops policies and procedures, and makes recommendations to the Board concerning compensation of key personnel.

**Priya Mathur**, *Chair*

**Tony Oliveira**, *Vice Chair*

David Gilb

Louis F. Moret

Anne Sheehan

Kurato Shimada

Charles P. Valdes

### Finance

This committee provides financial oversight on all budget matters, evaluates funding alternatives, oversees preparation and recommends approval of the CalPERS budget, and oversees the CalPERS annual and periodic audits by both internal and external audit units.

**Tony Oliveira**, *Chair*

**John Chiang**, *Vice Chair*

Henry Jones

Bill Lockyer

Louis F. Moret

Kurato Shimada

Charles P. Valdes

**Investment**

This committee reviews investment transactions, the investment performance of both internal and external managers, and establishes investment policy and strategy.

**George Diehr**, *Chair*

**Priya Mathur**, *Vice Chair*

Marjorie Berte

John Chiang

Rob Feckner

David Gilb

Henry Jones

Bill Lockyer

Louis F. Moret

Tony Oliveira

Anne Sheehan

Kurato Shimada

Charles P. Valdes

**Investment Policy Subcommittee**

This subcommittee conducts an inventory of all existing investment policies, procedures, and guidelines for review by the Investment Committee and reviews and recommends revisions to these on a priority basis. It is also charged with developing a manual of policies, procedures, and guidelines, and a process for periodic revisions.

**Henry Jones**, *Chair*

**George Diehr**, *Vice Chair*

Louis F. Moret

Anne Sheehan

Charles P. Valdes

**Ad Hoc Board Governance Committee**

This committee reviews the Board's internal governance procedures and recommends to the Board any changes or additions to existing policies.

**Rob Feckner**, *Chair*

**George Diehr**, *Vice Chair*

Marjorie Berte

Priya Mathur

Kurato Shimada

Charles P. Valdes



**Front row, seated (from left to right):**  
Jarvio A. Grevious and Ken Marzion.

**Middle row (from left to right):**  
Patricia K. Macht, Gloria Moore Andrews, and Gregory Franklin.

**Back row, standing (from left to right):**  
Teri Bennett, Ron Seeling, Anne Stausboll, Peter H. Mixon,  
Kathie Vaughn, and John Hiber.

## Executive Staff

**Kenneth W. Marzion**

Chief Executive Officer (Interim),  
*(Fred Buenrostro through May 12, 2008)*

**Gloria Moore Andrews**

Deputy Executive Officer,  
Operations  
*(Retired December 2008)*

**Jarvio A. Grevious**

Deputy Executive Officer,  
Benefits Administration  
*(Retired November 2008)*

**Teri Bennett**

Assistant Executive Officer,  
Information Technology Services

**Gregory Franklin**

Assistant Executive Officer,  
Health Benefit Services

**John Hiber**

Assistant Executive Officer,  
Administrative Services

**Patricia K. Macht**

Assistant Executive Officer,  
Public Affairs

**Peter H. Mixon**

General Counsel

**Ron Seeling**

Chief Actuary,  
Actuarial & Employer Services

**Anne Stausboll**

Chief Investment Officer (Interim),  
*(Russell Read through April 23, 2008)*  
and  
Chief Operating Investment Officer,  
Investment Operations

**Kathie Vaughn**

Assistant Executive Officer,  
Member & Benefit Services  
*(Retired December 2008)*

## Division Chiefs, Project Managers, & Senior Investment Officers

(through June 30, 2008)

**Rand Anderson**

Project Manager,  
Public Employer Readiness Project

**Ellen Badley**

Division Chief,  
Office of Health Plan Administration  
(*Marcine Crane through March 28, 2008*)

**Eric Baggesen**

Senior Investment Officer,  
Global Public Equity  
(*Christianna Wood through May 19, 2008*)

**Terry Bridges**

Project Manager,  
Pension System Resumption Project

**Ted Eliopoulos**

Senior Investment Officer,  
Real Estate

**Sandra Felderstein**

Division Chief,  
Office of Health Policy & Program Support

**Matthew Flynn**

Division Chief,  
Investment Office,  
Operations, Performance, & Technology

**Holly Fong**

Division Chief,  
Office of Employer & Member Health Services

**Russell Fong**

Division Chief,  
Fiscal Services

**Curtis Ishii**

Senior Investment Officer,  
Global Fixed Income

**Larry Jensen**

Division Chief,  
Office of Audit Services

**Geraldine Jimenez**

Division Chief,  
Supplemental Income Plans

**Nancy Johnson**

Division Chief,  
Technology Services & Support Division

**Sherry Johnstone**

Chief Compliance Officer,  
Office of Enterprise Compliance

**Ron Kraft**

Division Chief,  
Customer Service & Education Division

**Donna Lum**

Division Chief,  
Benefit Services

**Farouki Majeed**

Senior Investment Officer,  
Asset Allocation & Risk Management

**Kim Malm**

Division Chief,  
Operations Support Services  
(*Rick Nelson through April 30, 2008*)

**Lori McGartland**

Division Chief,  
Employer Services

**Alan Milligan**

Division Chief,  
Actuarial Office

**Kami Niebank**

Division Chief,  
Strategic Management Services Division

**Wendy Notsinneh**

Division Chief,  
Office of Governmental Affairs



**Chris O'Brien**  
Division Chief,  
Human Resources

**Renee Ostrander**  
Division Chief,  
Information Technology Administration  
(*Kim Malm through April 30, 2008*)

**Lindy E. Plaza**  
Diversity Officer of Internal Operations,  
Diversity Outreach Program

**Gina Ratto**  
Deputy General Counsel,  
Legal Office

**John Rice**  
Division Chief,  
Operations and Infrastructure Support

**Kristie Santos**  
Project Manager,  
Enterprise Transition Management

**John Saxon**  
Division Chief,  
Innovative Services Division

**Leon Shahinian**  
Senior Investment Officer,  
Alternative Investment Management Program

**Anthony Suine**  
Division Chief,  
Pension System Resumption Project (Business)

**Darryl Watson**  
Division Chief,  
Member Services

**Vacant**  
Diversity Officer,  
External Affairs  
(*Ruthe Ashley through April 30, 2008*)

## Regional Office Managers

**Evelyn Perez**  
Fresno

**Edith Mercer**  
Glendale

**Laura Duran**  
Orange County

**Christine Campana**  
Sacramento

**Betty White**  
San Diego

**June Copple**  
San Bernardino

**Elwin Nash**  
San Jose

**Mary Aberg**  
Walnut Creek





## Pension Plan Services ↗

### **Preparing for Tomorrow**

As the nation's largest public pension fund, we are committed to ensuring the sustainability of our members' pension and health benefits. We exercise strong global leadership to fulfill our fiduciary responsibilities.

# Pension Plan Services for Members & Employers

Administering retirement plans for California public employers and their employees is one of our main lines of business. We serve more than 2,600 public employers; and more than 1.6 million public employees, retirees, and their families are covered by our defined benefit pension plan. As of June 30, 2008, CalPERS provided retirement benefits for 1,126,133 active and inactive members and 476,252 retirees and beneficiaries.

## Serving Our Members

Our CalPERS Customer Contact Center and eight regional offices are the frontline providers of outstanding customer service to our members. During the 2007-08 fiscal year, we processed 23,846 new service retirement applications and approximately 2,800 disability retirement applications. We paid \$10.9 billion in retirement, death, and survivor benefits, an increase of nearly \$800 million over the prior year. Ninety-nine percent of new retirees received their first benefit check within 30 days of retirement. We also processed 24,600 requests for refunds and made those funds available to members within 30 days.

In addition, we handled 625,000 customer calls and responded to 54,000 pieces of member-related correspondence. We completed more than 87 percent of the calls during the initial point of contact.

In an effort to improve our Customer Contact Center experience, we implemented a new call-back

feature that has saved our members millions of minutes in wait time. The new system kicks in when caller-wait times exceed six minutes. At that point, callers are asked if they would like to hang up and have CalPERS call them back when it's their turn, without losing their place in line. In addition to decreasing caller-wait times, this new feature also reduced call abandonment rates and greatly improved customer service to our members.

Over the past year, we made major improvements to our two customer service technology systems. We added security upgrades to the myCalPERS personal Web site for members that provide more security when members are viewing their health and retirement benefits information and conducting business online. We also enhanced the CalPERS Education Center, giving members and employers easier access to CalPERS education classes. Members can register for instructor-led classes, take classes online, download class materials, receive notifications of new classes or class openings — and even make appointments with a CalPERS retirement counselor.

Most of our member education is still done in a traditional instructor-led classroom. We offer a comprehensive schedule of instructor-led classes on topics such as understanding CalPERS benefits, planning for a financially secure retirement, and financial planning for retirees. We've also begun the process of training CalPERS staff as financial planning instructors rather than relying on an outside service provider. By bringing financial planning education in-house, we can tailor financial planning classes to best fit our members' needs.

Over the past year, we processed 44,557 class enrollments and provided education to 33,722 members — 2,171 of whom took our classes online.

To supplement our retirement planning classes, we conducted 20 retirement planning fairs in 13 cities around the State and added Saturday events

Retirement Program Highlights
1,126,133 active & inactive members
476,252 retirees, beneficiaries & survivors
2,619 public agency employers (including school districts)
\$10.9 billion paid in benefits

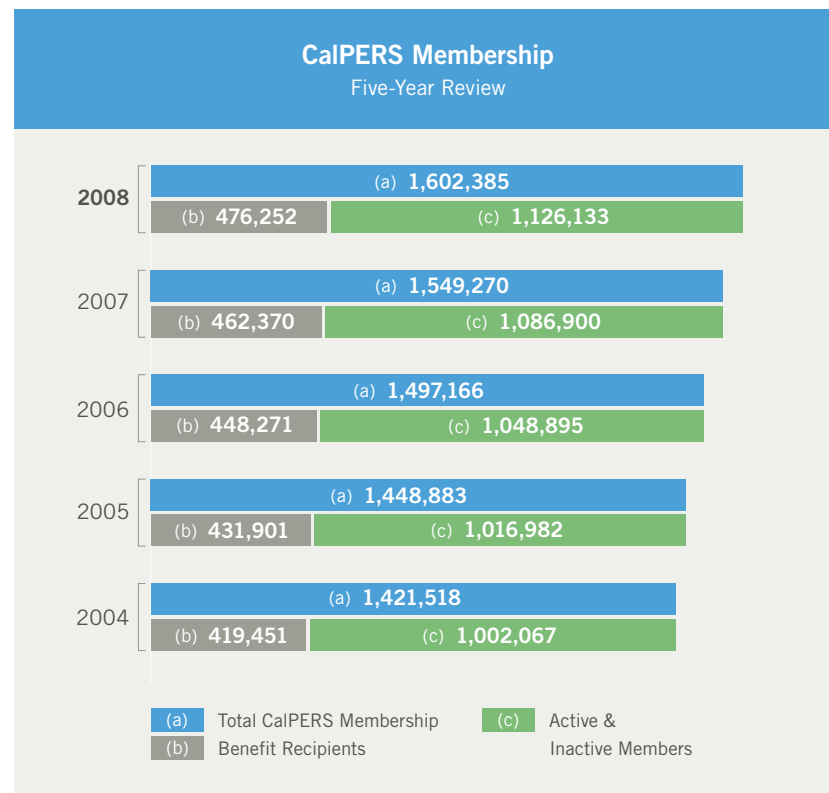
to provide more opportunities for our members to obtain retirement planning information. In 2007, nearly 6,000 members attended a retirement fair.

This past year we mailed 1,004,094 annual member statements, a 4 percent increase over the previous year. Members can also view and print their annual statements from myCalPERS, including past years' statements, and choose to opt out of receiving their annual statements in the mail.

### Serving Our Employers

We completed our first full year of operation for the California Employers' Retiree Benefit Trust Fund (CERBTF) during the 2007-08 fiscal year. The trust fund allows any California public employer to prefund their retiree health benefits and other post-employment benefits (OPEB), substantially reducing their future long-term OPEB costs. Participating employers make regular contributions into the trust fund; the money is invested and grows. In the future, employers can use investment earnings to pay for their OPEB costs. This is similar to the CalPERS pension plan, in which three out of four dollars paid in benefits come from investment earnings, rather than employer or employee contributions. At the close of the fiscal year, 82 local public agencies had joined our OPEB trust fund, contributing \$650 million into the fund.

More than 700 employer representatives attended our eighth annual Employer Educational Forum in Anaheim. The theme of the three-day event was "Living the Promise," and it highlighted our 75 years of service to the public employees and public employers of California. Participants chose from more than two dozen workshops on topics ranging from nuts-and-bolts administration of CalPERS benefit programs, to optional benefit programs, to emerging issues such as new laws and proposed legislation. The event also gave employer representatives an opportunity to exchange ideas and network with their colleagues and CalPERS staff and Board members.



During the year, our Employer Contact Center provided service to more than 128,000 callers at the initial point of contact. The contact center also led an effort to update public agency and school employer contracts, which resulted in 7,643 change transactions. In addition, a survey of employer satisfaction with the assistance provided by our phone agents demonstrated a 95 percent satisfaction rating.

We enhanced our technology-based customer service tools for employers during the year by adding online employer education classes to our Internet-based CalPERS Education Center. Topics include *CalPERS Membership*, *Online Tools and Resources*, and *The Importance of Accurately Reporting Payroll*. We also conducted workshops for 1,212 employer representatives at State, school district, and public agency offices. We conducted 27 workshops for employers by special request and 22 workshops for new CalPERS employers.



## CalPERS Participating Public Agencies

Five-Year Review

2008	2,619
2007	2,614
2006	2,597
2005	2,582
2004	2,509

Enhancements were also made to our online Automated Communications Exchange System (ACES), used by employers to report employee information to CalPERS. Employers can now create and retain payroll files online and view State Alternate Retirement Program information. As we get closer to completion and implementation of myCalPERS — our modern, integrated state-of-the-art information technology system which replaces aging “legacy” systems — we established the Public Employer Readiness Team (PERT). PERT team members will reach out to employers to educate and train them on new system functionality and related process changes.

During the year, we provided employers with online access to their Annual Employer Statements through ACES, processed more than 330,000 member transactions, conducted more than 4,100 compensation reviews, completed 168 contract amendments, completed 142,000 employer inquiries, and processed 47,000 payroll reports.

## Other Significant Pension Policy Developments

In 2007, Governor Arnold Schwarzenegger established the Public Employee Post-Employment Benefits Commission to propose ways to address the growing public employee pension and retiree health benefit obligations in California. The 12-member Commission held a series of public meetings around the State to take testimony from various experts, stakeholders, and interested parties. CalPERS provided technical and subject matter expertise to the Commission, and a team of CalPERS staff attended all meetings to monitor activities. The Commission issued its final report in January 2008, which contained 34 recommendations. A key recommendation was pre-funding the future cost of retiree health benefits similar to the way retirement benefits are funded.

Three bills signed by the Governor during the 2008 legislative session — AB 1844, AB 2023, and SB 1123 — implement recommendations made by the Commission. The new laws give CalPERS more tools to investigate and prosecute allegations of fraud in connection with applying for or receiving retirement benefits. State and local governments will now be required to conduct rigorous public reviews before they can approve any enhancements to employee benefits, and disability retirement will be allowed only for medical reasons.

Overall, the Commission concluded that affordable employee benefit packages serve the public good by enhancing recruitment and retention of qualified public employees. The Commission also found the vast majority of public retirement systems in California were well funded, with a combined average funding level of 89 percent as of June 30, 2006.





## Health Benefits Program

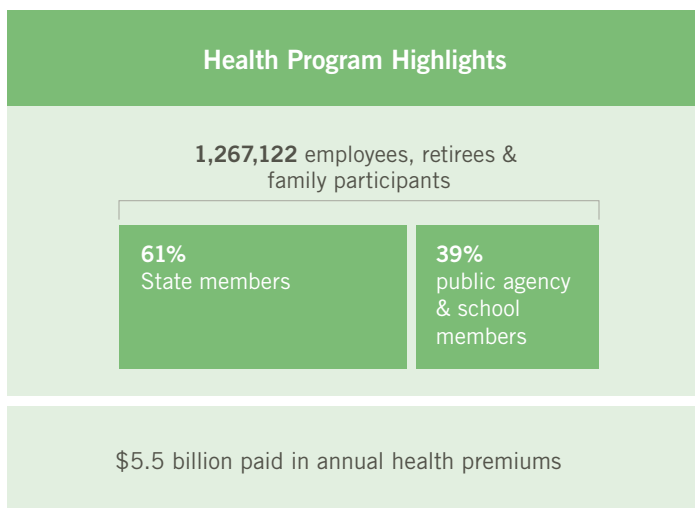
### **Managing Health Care Costs**

As the nation's second largest public purchaser of health care, we focus on containing costs, press for high quality, and educate our members about smart choices for a healthier life.

# Health Benefits Program

## Overview

CalPERS is dedicated to maintaining a sustainable health benefits program — a program that supports and provides for the health care needs of our nearly 1.3 million members. With more than 45 years of experience in providing health insurance benefits to State and local public employees, we understand that health care dollars are a precious and limited resource.



We are continually looking for ways to offer the highest quality health care at the most affordable price. We are focused on containing costs while preserving benefits, and educating our members so they can effectively manage their health and prevent disease.

## The Health Care Market: In Focus

The federal government projects that by 2017, total health care spending will double to more than \$4 trillion a year — about 20 percent of the national gross domestic product. Spiraling health care costs impact both employers and employees. Employers are paying more for health care and other benefits, leaving less money for wage increases. Employees are paying higher health care premiums, leaving less money to pay for their other living expenses, such as food, clothing, and housing. According to a

March 2008 report by the Kaiser Family Foundation, premiums for family health coverage increased 78 percent between 2001 and 2007. In comparison, wages grew only 19 percent cumulatively over the same period.

Industry analysts attribute much of the continuing cost pressure to the following:

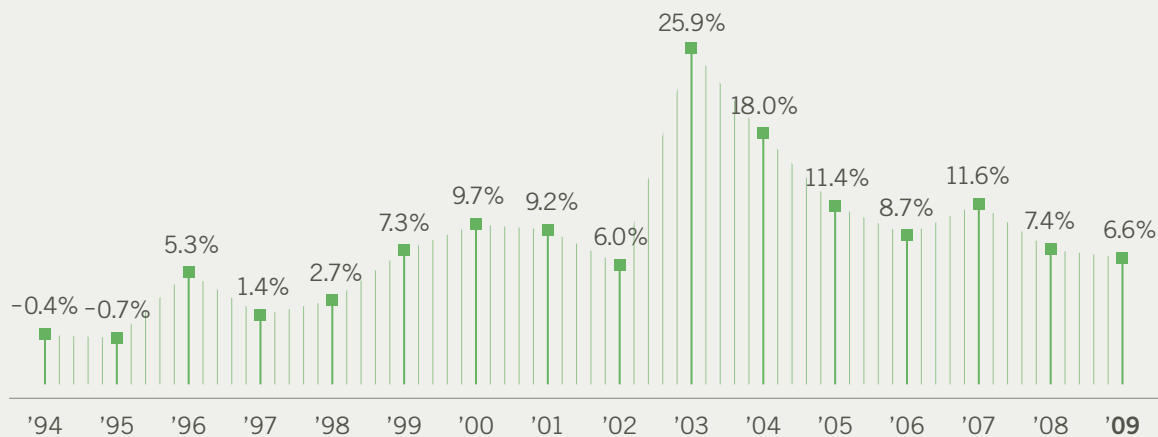
- Rising hospital and physician costs;
- Extra services for an aging population that is living longer;
- Increasing incidence of costly chronic medical conditions, such as diabetes and heart disease;
- More advanced and available medicines and medical technology;
- Consolidation of hospitals and other networks that limit competition for services in certain areas; and,
- Inconsistency in pricing, quality, record-keeping, and reporting practices by hospitals, physicians, and other providers.

During the year, CalPERS continued educating members about the importance of staying well and making smart choices about their health care. We also negotiated tenaciously on their behalf with our health plans to obtain the best possible benefits at the best possible price in the face of ever-rising costs. In June 2008, the CalPERS Board of Administration adopted a 2009 rate package that would increase overall premiums by 4.3 percent for our entire package of health care plans. This was the smallest increase in more than a decade.

In addition, we held Basic Health Maintenance Organization (HMO) increases to 6.6 percent, and we negotiated an HMO Medicare rate increase of less than three-quarters of 1 percent. Premiums for our Basic Preferred Provider Organization (PPO) members declined slightly by 0.04 percent in 2009, while premiums for Medicare PPO members had no change. We used surplus reserves to help bring down the PPO premiums. The reserves were a result of

## Basic HMO Premium Averages

Percent Decrease or Increase Based on a Weighted Average of All CalPERS HMOs



lower-than-expected costs in medical and pharmacy claims for the previous year. Overall, these rate changes fell well below national projections. One rate projection, by the Hewitt Associates consulting firm, predicts the average national HMO premium rates will increase by approximately 11.8 percent in 2009.

### Opportunities to Save Money, Improve Service

CalPERS saved more than \$200 million in potential health care costs through proactive efforts with Blue Shield of California. These efforts included: removing the highest cost hospitals from the Blue Shield network, adding a new lower-cost health plan (NetValue), extending the Blue Shield contract for one year (through December 31, 2010), and crediting CalPERS for lower utilization of health care services in 2007 and 2008.

We also seized the opportunity to save money by extending our contract with Medco through December 31, 2010. Medco is the pharmacy benefits manager for our PPO plans. During the current three-year contract (which was set to expire on June 30, 2009), we will save approximately \$30 million per year. As part of the agreement to extend the contract by 18 months, Medco will implement program improvements that will save us an additional

\$39.5 million and provide enhanced service and support to our members.

As part of our efforts to increase transparency in provider costs and contract allowance amounts, we awarded Blue Cross of California a new three-year contract, which became effective January 1, 2008. Blue Cross is the third-party administrator for our PPO health plans — PERS Select, PERS Choice, and PERSCare. Our Board selected Blue Cross because of its comprehensive network coverage and its ability to negotiate better prices with hospitals and physicians.

### Partnering to Contain Costs

The cost of health care in rural areas continues to be a challenge. In some rural counties, costs are nearly three times more than CalPERS statewide average. To improve affordability in these counties, as well as educate members, employers, community leaders, and other key stakeholders about these disparities, we have been partnering with Blue Shield to hold Regional Council Meetings. We highlighted the drivers of health care costs, explained how these costs have a dramatic impact on overall cost trends, and identified ways to make health care more affordable in those counties.

## Total Health Program Membership

Five-Year Review

2008	1,267,122
2007	1,240,976
2006	1,205,945
2005	1,190,212
2004	1,200,668

Despite some ongoing challenges, we pressed forward with our “Partnership for Change” initiative, developed in September 2005. The goals of this initiative are to promote hospital performance transparency, manage hospital costs, and ensure a high-value hospital network.

CalPERS and the Pacific Business Group on Health (PBGH) jointly released a study on hospital costs and pricing that we commissioned from Milliman, Inc. The report, “Cost Efficiency at Hospital Facilities in California,” revealed that on average, hospitals were recovering from private payers 40 percent more than their actual costs to cover profit margin and government program shortfalls. It also showed that hospital pricing is much more related to market power than it is to charity care, teaching status, and total operating costs.

The report also demonstrated that since hospitals are not required to disclose their actual prices for specific health care services, private insurers and patients are not able to “shop” for health care based on overall value (i.e., quality and costs). For years, we have sought to obtain permission from hospitals to use health plan claims data to compare the relative costs to patients by service provided (e.g., maternity or heart surgery). CalPERS and PBGH will continue to work together to achieve that goal, engaging the California Hospital Association, health systems, and hospitals at every opportunity.

## National Leadership

We continued our health policy leadership with the Public Sector HealthCare Roundtable, a national coalition of public sector health care purchasers. The Roundtable is a voice for public employers to provide input to Washington, D.C. on health care quality and cost-effectiveness issues. It has successfully lobbied Congress to adopt meaningful e-prescribing legislation — implementing a program that will help eliminate errors and increase efficiency.

In October 2007, the Roundtable held its third Annual Conference in Alexandria, Virginia. This conference focused on health care policies for the public sector and included presentations on our Healthcare Investment Initiative and the California Employers’ Retiree Benefit Trust Fund (CERBTf), a fund established to assist those agencies that prefund their Other Post-Employment Benefit (OPEB) obligations.

The Roundtable has adopted policy statements that support increasing the use of health information technology and pay-for-performance initiatives; funding comparative effectiveness research; improving access to more affordable medications; and providing federal support for retiree health coverage.

## Advances in Member and Employer Engagement

We expanded our efforts to educate and communicate more effectively with our members. We dedicated a special section in the Open Enrollment newsletter to the drivers of health care costs and actions members can take to help keep costs down. By making wise choices that maximize health and wellness and minimize illness and disease, members keep health care costs down for themselves and for all CalPERS members.

Blue Shield of California continued its “Healthy Lifestyle Rewards” program, which offers adult members cash incentives of up to \$200 per year for making lifestyle changes and reducing health risk

factors. Following suit, Kaiser Permanente launched its “HealthWorks” wellness program for CalPERS members in the fall of 2007. HealthWorks offers customized online healthy lifestyle programs and opportunities to earn valuable rewards by completing a Total Health Assessment. We are working with our self-funded PPO health plans to develop a similar wellness incentive program.

According to a January 2008 independent survey, CalPERS members are very satisfied with prescription drug services provided by their health plan. Michael Strategic Analysis conducted the survey, which measured CalPERS pharmacy plan users’ knowledge, attitudes, practices, and satisfaction level with Blue Shield, Kaiser, and Medco pharmacy services. We will continue to look for innovations that enhance our members’ experience and improve the efficiency and effectiveness of our pharmacy plans.

We continued to encourage our members to make more informed decisions by providing tools and resources to help them be educated health care consumers. We promoted the California Hospitals Assessment and Reporting Taskforce (CHART) Web site ([www.CalHospitalCompare.org](http://www.CalHospitalCompare.org)), which reached its one-year anniversary in March 2008. Supported by PBGH and CalPERS, CHART features more than 50 performance measures and enables our members and other health care consumers to get information about quality of care, patient satisfaction, and safety for nearly 220 California hospitals. This valuable data helps members determine which hospitals provide the best care for their specific needs, and which make safety the highest priority.

We also developed a new Health Plan Chooser brochure to help members select the right health plan for themselves and their families. The brochure tells members when and how to use the online Health Plan Chooser tool, and highlights some of its key features.

Using the Chooser, members can easily compare health plans, doctors, facilities, and costs. The Health Plan Chooser brochure is also a tool that employers can use to help their employees select a health plan.

In developing our Health Open Enrollment materials, we incorporated feedback we received in a report completed in early 2008 by Ogilvy Public Relations Worldwide (Ogilvy), an international public relations, communications, and marketing firm with a local office in Sacramento. The report, “Communicating With Seniors,” highlighted how we could more clearly and effectively communicate with our senior members. Ogilvy developed its recommendations after assessing six months of communication to seniors (including Open Enrollment materials from previous years), conducting member focus groups, reviewing our Web site, and interviewing and exploring the “best practices” of public and private organizations that communicate regularly with seniors.

On the employer side, CalPERS comprehensive public agency outreach effort to expand our Health Program yielded results. Our public agency total covered lives (TCLs) increased 2 percent to 488,000. During 2007, the Public Agency & Schools Program experienced the highest agency retention level of the past five years, retaining 99.7 percent of the agencies participating in the Health Program the prior year. Recruitment efforts were also very successful, as we established contracts with 13 new agencies — including the largest public agency to join the Health Program in the past five years — representing 11,600 TCLs.

In March 2008, CalPERS successfully reconciled the 2006 Medicare Part D subsidy payments for the Medicare Retiree Drug Subsidy (RDS). The State received \$32 million in RDS funds to help reduce annuitant health care costs. In addition, we distributed more than \$14 million to 780 contracting agency employers based on each agency’s contribution toward annuitant health care premiums.

### Program Enhancements

In the fall of 2007, CalPERS launched a Health and Disease Management Initiative to identify a strategy to help us provide a consistent, best-in-class Health and Disease Management Program across all health plans. The program would also implement comprehensive performance monitoring for the plans. We engaged an outside consulting firm to assist with this initiative. The consultants presented their findings and recommendations to the Health Benefits Committee in the spring of 2008. Staff evaluated the findings and made recommendations to the Committee in June 2008, and will continue to evaluate this issue in the 2008-09 fiscal year.

Effective January 1, 2008, CalPERS added two new cost-efficient high-performance physician network health plans. The new plans — Blue Shield NetValue (HMO) and PERS Select (PPO) — offer the same quality of care as existing plans, but have lower premiums because members choose from a smaller panel of physicians. We enrolled a total of 104,000 lives into NetValue and PERS Select.

### Self-Funded Health Plans

Positive cash flows for CalPERS not-for-profit, self-funded plans — PERS Choice and PERSCare — confirmed that the rates approved for the 2008 plan year would be sufficient to finance benefits and maintain adequate reserves. Asset levels for these Basic and Supplement to Medicare plans exceeded 150 percent of reserve requirements.

Surplus reserves stood at \$333 million at the end of 2007. The reserves are a result of lower-than-expected costs in medical and pharmacy claims, in part due to

an increase in availability of generics, members' increasing use of those generics, and fewer hospital admissions. In May 2008, the Board decided to use approximately 18 percent of the surplus reserves — or about \$60 million — to avert premium increases for PPO members in 2009.

### Long-Term Care Program

CalPERS continued to offer the not-for-profit, self-funded Long-Term Care Program to bolster the retirement security of more than 168,140 public employees, retirees, spouses, parents, parents-in-law, and adult siblings. The program provides help with basic activities of daily living in the event of an accident, chronic illness, disability, or the frailty of old age.

The application period started April 1, 2008 and ended June 30, 2008. There were no rate increases for program participants, who could choose between three basic plans:

- Comprehensive Plan — provides for care at home, adult day care centers, assisted living facilities, and nursing homes, and includes a one-time, 90-calendar-day deductible period.
- Facilities Only Plan — provides for care in nursing homes and assisted living facilities, and includes a one-time, 90-calendar-day deductible period. (Home care and community-based care are not covered under this plan.)
- Partnership Plan — provides for care at home, adult day care centers, assisted living facilities, and nursing homes, and includes a one-time, 30-calendar-day deductible period.





## Investment & Corporate Governance Programs

### **Exercising Leadership**

Good corporate governance leads to better investment performance. We seek corporate reforms and invest with partners who use corporate governance strategies to add value to our fund. Our corporate governance activism ensures companies respond to the need for long-term returns.

# Investment & Corporate Governance Programs

Smart investing in the capital markets is about looking through the windshield — not the rearview mirror. The CalPERS Board is continually looking ahead, setting three-year targets for allocating the pension fund’s assets. Investment returns rise or fall each fiscal year, but our Board, investment staff, partners, managers, and consultants are always thinking about tomorrow’s market.

One example of this approach is our environmental investment programs, which demonstrate our commitment to sustaining the natural resources that are essential to both national and global economic vitality — today and tomorrow. We invest hundreds of millions of dollars in alternative energy products, press companies to fully report carbon emissions that may harm the environment, and urge government leaders to create incentives and penalties to protect the environment.

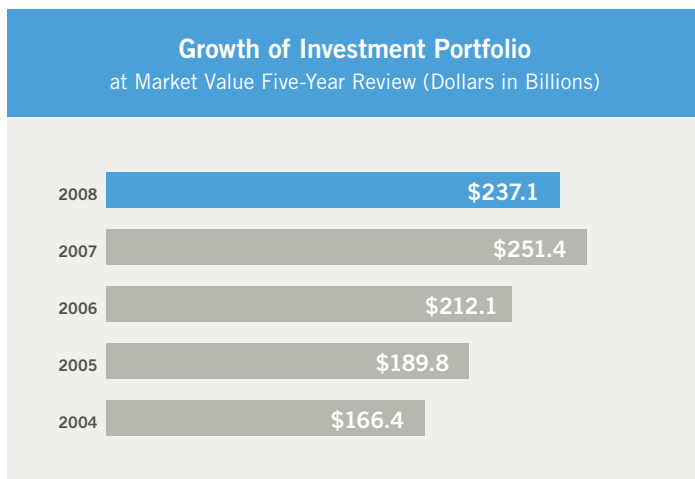
Performance Benchmarks	
Asset Class	Benchmark
Global Fixed Income	Lehman Long Liability Index
	Lehman International Fixed Income
Equity	
	Domestic
	PERS Wilshire 2500 Tobacco-Free Index
International	FTSE All World ex U.S. Index
Alternative Investments	Custom Wilshire 2500 Index + 300 Basis Points
Real Estate	NCREIF Property Index

## Summary of the Fiscal Year

At the start of the 2007-08 fiscal year, the CalPERS portfolio appeared headed for a fifth straight year of double-digit percent investment gains. In June 2007, the Fund reached \$250 billion in assets for the first time, and we recorded a 19.1 percent return for the fiscal year that ended June 30, 2007. Then the subprime mortgage crisis hit the market and the other markets were affected. For much of the following fiscal year, all asset classes felt the heat of the mortgage meltdown. A year later, on June 30, 2008, the value of CalPERS investments totaled \$237.1 billion with an overall one-year loss of 5.1 percent that reflected the flight of investors from the stock market.

In response to the changing investment climate, in mid-December, 2007, the Board set new allocation targets and ranges to guide investments over the next three years. We increased target allocations and discretionary ranges for private equity and real estate. We trimmed allocations for global equity and fixed income, and created a new asset class for direct investment in commodities, forestland, infrastructure and inflation-linked bonds. CalPERS also brought more public stocks under internal management and began to reduce or eliminate the U.S. bias in global equity, private equity, and real estate.

We closed the year under the shadow of the widening credit crisis. For the five-year period ending



June 30, 2008, global fixed income and private equity had positive investment returns, while global equity and real estate had negative returns. Although the overall average market value decline was 5.1 percent, net of fees, this is well below the 7.75 percent return needed to pay retirement benefits into the coming decades.

### Alternative Investment Management Program

Private equity gained 5.8 percent for the one-year period, although that asset class was not immune to the slowdown in the global economy or critical issues in the broader capital markets. Completing a multi-year restructuring plan, AIM successfully sold \$2 billion in “legacy portfolio” funds on the secondary market through a third party. The

transaction was part of a plan launched in late 2006 to reduce the number of AIM funds, to allow investment officers to focus more on top-quartile performing partners, and to bring out new investment vehicles involving relatively small but promising companies in sectors such as clean technology, emerging managers and markets, and health care.

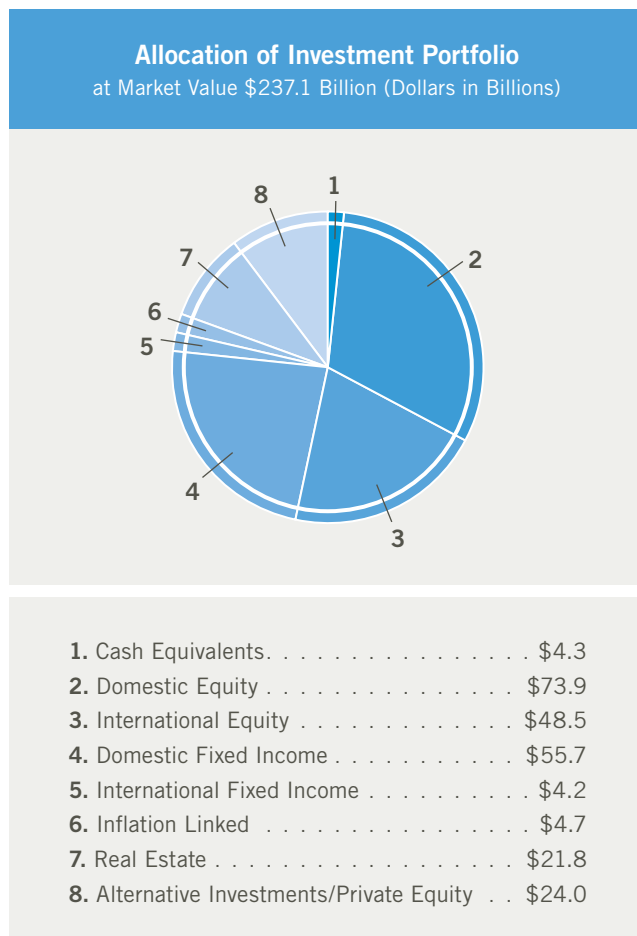
The AIM Program also committed \$539 million to the ESP Golden Bear Europe Fund, set up by Standard Life Investments, Ltd., to deploy capital into small- and middle-market buy-out funds in Europe. The new vehicle was the latest of several created by the AIM Program as part of its strategic realignment.

In February 2008, AIM’s California Initiative Program for investments in traditionally underserved markets had generated \$205 million in gains and

Asset Allocation (Dollars in Billions)			
Asset Class	Market Value	Percent of Investments	Current Target <sup>1</sup>
Cash Equivalents	\$4.3	1.8 %	0.0 %
Global Fixed Income	\$59.9	25.3 %	19.0 %
<b>Equity</b>			
Domestic	\$73.9	31.2 %	28.0 %
International	48.5	20.4	28.0
Alternative Investments/Private Equity	24.0	10.1	10.0
<b>Total Equity</b>	<b>\$146.4</b>	<b>61.7 %</b>	<b>66.0 %</b>
Inflation Linked (ILAC)	\$4.7	2.0 %	5.0 %
<b>Total Real Estate</b>	<b>\$21.8</b>	<b>9.2 %</b>	<b>10.0 %</b>
<b>Total Fund</b>	<b>\$237.1 <sup>2</sup></b>	<b>100.0 %</b>	<b>100.0 %</b>

<sup>1</sup> Target allocation effective January 1, 2008.

<sup>2</sup> Differences between investment values above and the values on the Summary of Investments on page 86 of the CAFR are due to differences in reporting methods. The Summary of Investments includes Net Investment Receivables/Payables.



**A Closer Look at AIM  
Portfolio Diversification by Strategy**

Portfolio Strategy	
Corporate Restructuring	59 %
Distressed Securities	14
Expansion Capital	11
Mezzanine Debt	1
Secondary Interests	2
Special Situation	3
Venture Capital	10
<b>Total</b>	<b>100 %</b>

funded more than 217 companies. Companies ranged in size from three to more than 22,000 employees across a full spectrum of industries.

Some of the younger funds were in AIM’s Environmental Technology Program, which is building a “best of breed,” diversified portfolio with more than \$600 million in commitments for clean technology-focused investments. Environmental or clean technologies are solutions that are more efficient and less polluting than existing or legacy products, services, or technologies. Areas of particular interest include alternative and renewable energy, water technologies, advanced materials or nanotechnology, air purification technologies, and transitional infrastructure opportunities. We anticipate that investment returns in this sector will be commensurate with the risk-adjusted returns of the general private equity market.

Overall, the AIM portfolio is still relatively young, and has the potential for even higher performance as funds with external partners mature over what is typically a 10-year time horizon. The AIM program is positioned to take advantage of investment opportunities during the downturn that will pay off after the market recovers.

## Real Estate

Mortgage market problems were difficult for all real estate investors in the housing sector. Later in the year, “core” holdings of retail, office, industrial, and apartment properties were also threatened in the increasingly credit-constrained global market. Real estate investments returned approximately negative 12.6 percent for the fiscal year, compared to a positive 9.2 percent for its industry benchmark.

The gross market value of CalPERS housing assets stood at \$6.1 billion as of June 30, 2008, down from its value of \$9.3 billion as of March 31, based

on evaluations performed by independent appraisers of assets in 20 partnerships.

In response to the situation, we valued the existing properties, analyzed the capital structure of the housing program, restructured certain outstanding debt arrangements, and reduced leverage where appropriate. Independently, the CalPERS Board and staff continued to proceed with a restructuring effort that was started in January 2007 to enhance the entire real estate program's policies, processes, and protocols.

The Board also increased the target allocation for real estate from 8 percent to 10 percent of CalPERS assets, with a discretionary range of plus or minus 3 percent around that target. The long-term restructuring plan included increasing the real estate program's international share from 20 percent to as much as 50 percent over the next 5 to 10 years, depending on market conditions. It also entailed focusing more sharply on value-added investment strategies, instead of just core or opportunistic investments, and positioning a more diversified portfolio for future growth.

The strategic plan includes new global real estate benchmarks, a new environmental investment policy, and reorganization and expansion of staff. The environmental strategy focuses on generating attractive investment returns while adopting environmental and green building technologies in areas such as energy efficiency, water conservation, waste stream management, and indoor air quality, within the overall real estate portfolio.

Our Board set a five-year energy reduction goal of 20 percent in its core real estate portfolio. The strategy also supports green building initiatives and continues to explore investments that fit within the Leadership in Energy & Environmental Design (LEED)/Energy Star requirements. For the

## A Closer Look at Real Estate Investments & Commitments

(Dollars in Millions)

### Core Real Estate

Apartment	\$3,147.0
Industrial	4,074.2
Office	1,237.2
Retail	2,314.3
AFL-CIO Building Investment Trust	181.6
CIM Urban REIT	246.1

<b>Total Core Real Estate</b>	<b>\$11,200.6</b>
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### Non-Core Real Estate

Agricultural Land	\$171.0
California Urban Real Estate (CURE)	2,605.7
Housing	581.1
International	2,752.8
Opportunistic Funds	2,187.7
Real Estate Technology	185.7
Senior Housing	378.0
Public (REITs)	1,881.5

<b>Total Non-Core Real Estate</b>	<b>\$10,743.7</b>
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<b>Total Real Estate</b>	<b>\$21,944.3<sup>1</sup></b>
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<sup>1</sup> Differences between investment values above and the values on the Summary of Investments on page 86 of the CAFR are due to differences in reporting methods.



## International Equity & Fixed Income Investments Country Diversification

### Up to \$25 million

Argentina	Neth. Antilles
Colombia	Pakistan
Cyprus	Papua New Guinea
Guernsey, C.I.	Sri Lanka
Mauritius	

### \$50 to \$100 million

Chile	Jersey, Channel Islands
Czech Republic	New Zealand
Egypt	Philippines
Hungary	Poland

### \$100 to \$300 million

Austria	Israel
China	Malaysia
Greece	Portugal
Indonesia	Thailand
Ireland	

### \$300 to \$500 million

Belgium	Luxembourg
Denmark	Mexico
Finland	Norway
India	Turkey

### \$500 million to \$1 billion

Netherlands	South Africa
Russia	Sweden
Singapore	Taiwan

### More than \$1 billion

Australia	Italy
Brazil	Japan
Canada	Korea
France	Spain
Germany	Switzerland
Hong Kong	United Kingdom

2007 calendar year, annual reported energy savings exceeded 13 percent. Real estate partners detailed such energy saving methods as adjusting or reprogramming temperature control systems, installing sensor-operated flushers and faucets, and sorting scrap metal and other materials for recycling.

## Global Equity

Global Equity includes equity securities traded on any public market worldwide. It entails in-house management of domestic and international stocks, our hedge fund (Risk Managed Absolute Return Strategies) program, external equity managers, and our corporate governance program.

Prior to the 2007-08 fiscal year, public stocks had performed well over the previous four fiscal years. Global Equity market value peaked in late October 2007, then went into a prolonged decline as the fallout from the subprime mortgage crisis spread to the global market. As the year progressed, investors shifted money from the stock market into more secure asset sectors. By June 30, 2008, stocks that accounted for more than half of CalPERS market assets had negative returns of 12.3 percent for U.S. equity and 7.8 percent for international equity, which were slightly below their benchmarks.

In December 2007, our Board reduced the public stock target allocation from 60 percent to 56 percent of the total CalPERS portfolio — potentially to be split evenly between U.S. and international stocks. This restructuring included plans to strengthen internal management and shift more assets from passive to active, internally managed investment strategies.

During the 2007-08 fiscal year we stepped up our investments in emerging investment managers to reach out to smaller, growing firms. We made an



### A Closer Look at Global Public Markets (Dollars in Billions)

	Domestic	International	Total
Fixed Income	\$55.7	\$4.2	\$59.9
Equities	73.9	48.5	122.4
<b>Total Global Public Markets</b>	<b>\$129.6</b>	<b>\$52.7</b>	<b>\$182.3</b>

initial \$150 million investment in FIS Group, an emerging manager fund-of-funds. CalPERS also invested \$200 million in Redwood Investment Management Advisors, the second firm to be funded in the second phase of the Manager Development Program. We also added another \$150 million each in commitments to Leading Edge Investment Advisors and Quotient Investors.

External managers in emerging market countries received a new principles-based approach for their investments on our behalf in emerging international markets. Since 2002, CalPERS had placed certain emerging market countries — including Russia and China — off limits to public equity investments based on country and market factors. In August 2007, our Board ended the country exclusion approach after determining that many countries had improved their business practices and addressed risk factors. External managers used the new principles to take advantage of market opportunities in all developing countries listed in the FTSE All Emerging Index.

Other external managers had a \$500 million CalPERS commitment to use environmental screens in portfolio of under-valued stocks. Strategies entail researching for environmental sustainability factors and assessing companies' investment prospects based on "eco-efficiency" ratings.

### Corporate Governance

We began our corporate governance program in the early 1980s to fight hostile corporate takeovers that diminished share value in public companies. Eventually, our efforts focused on company stock performance, financial health, and policies aimed at better aligning the interests of management, boards, and shareowners.

Our top issue of 2007 was proxy access, which is the right of shareowners to place nominees for corporate board elections on proxy ballots that companies mail out to shareowners before general meetings. The costly alternative of independent shareowner campaigns is seldom-used. The U.S. Securities and Exchange Commission took the issue off the table, promising to revisit it later.

We also introduced and supported shareowner resolutions seeking majority vote for directors in uncontested elections, requiring directors to stand for annual election, and the elimination of supermajority vote requirements to amend company bylaws. Another corporate governance issue we addressed was egregious executive compensation. In corporate proxy campaigns, we advocated for the right of shareowners to cast non-binding advisory votes on executive compensation packages. Our goal in pursuing these measures was to better align the interests of investors and the directors who are supposed to represent them.

2008 Focus List
Standard Pacific Corporation
La-Z-Boy
Invacare Corporation
Hilb Rogal & Hobbs Company
Cheesecake Factory Incorporated

Pressing portfolio companies to be more transparent about environmental risk was also a key focus this year. Driving our environmental initiatives were our “Global Principles of Accountable Corporate Governance,” which include guidelines aimed at encouraging public companies to disclose and act on climate risks like carbon emissions that, if unaddressed, could diminish long-term investment returns.

We identified five companies on our 2008 Focus List for underperformance in long-term declining share value, financial health, and corporate governance. They were The Cheesecake Factory (a restaurant company); Hilb Rogal & Hobbs (an insurance brokerage firm); Invacare (a health care equipment supplier); and La-Z-Boy and Standard Pacific (both in the household durables and homebuilding sectors). All had seriously underperformed peers over the previous five years. Four of the companies were targets of CalPERS shareowner resolutions seeking annual board elections.

We worked with dozens of other companies that had been Focus List candidates but agreed to make changes. Several companies adopted standards for majority votes in uncontested director elections, the elimination of supermajorities for bylaw changes, and requiring all directors to stand for annual elections.

Our investment officers addressed federal and State legislators and regulators on the issues of proxy access, private equity, and climate change. On the federal front, we urged the Congress and the U.S. Securities and Exchange Commission to set environmental reporting standards for corporate America.

### Global Fixed Income

The subprime mortgage crisis initially had little direct impact on the CalPERS Global Fixed Income program. Unlike many other investors, we trusted our own credit rating system rather than relying predominantly on credit rating agencies. We also had limited exposure to collateralized debt obligations and structured investment vehicles that brought grief to many other investors as the liquidity crisis hit the lending market. At the end of the fiscal year, fixed income assets had returned 6.5 percent for the domestic portfolio and 17.6 percent for international, close to benchmarks in both sectors.

The CalPERS Member Home Loan Program, which helps members purchase and refinance homes, reported nearly 130,000 loans originated since its inception in 1981. Cumulative volume exceeded \$21 billion, and during 2007 increased from \$226.6 million to \$415.3 million. The program had more conservative, less risky loan products and tighter underwriting standards that protected it from the brunt of the housing industry’s subprime mortgage crisis. In March 2008, the program also reported a lower rate of delinquencies, at 1.8 percent, than the nationwide industry ratio of 2.3 percent. Only 0.07 percent of our prime fixed rate loans were foreclosed compared with the nationwide industry average of 0.22 percent.

Near the close of the 2007-08 fiscal year, the CalPERS Board increased the total aggregate commitment of the Credit Enhancement Program from \$5 billion to \$10 billion. The action opened

the way for many more cash-strapped public agencies to use the CalPERS credit rating, for a fee, to back their debt without incurring costly high loan interest rates. The increased commitment allowed the 3-year-old program to accommodate municipalities that had found it difficult to secure credit and liquidity enhancement for their debt issues. Our Board also dropped the dollar-based transaction limit of \$250 million.

**Supplemental Income Plans**

During the year, we fine-tuned our Supplemental Income Plans by offering enhanced investment options and customer service to give public agency participants preferences to match their retirement profiles.

Approximately 630 public agencies offered the employer-sponsored savings plan with no cost to the employer, and more than 26,000 public agency and school employees were enrolled in the CalPERS 457 Deferred Compensation Plan to invest earnings, reduce taxes, and grow supplemental income for retirement. The plan enabled them to put off paying taxes on earnings set aside in a retirement savings account.

Options included target retirement funds that are managed over time toward a series of established maturity dates. Participants could choose a fund with a target date closest to the year in which they expect to retire or begin withdrawing from their account. The funds adjust to more conservative levels as they approach their target date. They are designed to help build value in the early years and protect that value as the employee approaches retirement.

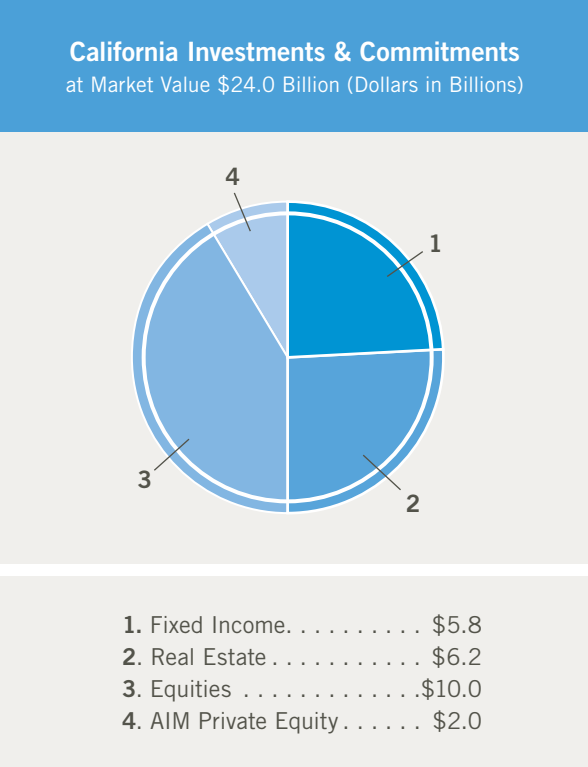
When participants retire, they can leave their assets on deposit and take monthly payments, or they can take a lump sum distribution.

**California Investments**

CalPERS is one of the largest investors in California — providing jobs, services, and a financial boost to the State’s economy.

We recognize the significant investment opportunities that are present in California and have allocated some of our portfolio for direct California investments. Typically measured in dollars, these investments not only benefit our members, but also State and local economies.

As of June 30, 2008, we invested approximately 10 percent of total CalPERS assets in California for a total market value of \$24 billion. Of that, nearly \$10 billion was in California-based public companies, \$6.2 billion in real estate, \$5.8 billion in bonds and other fixed income, and \$2 billion in Alternative Investment Management (AIM) private equity.



In October 2007, a Board of Administration report, *Economically Targeted Investments Program Policy*, stated that investments and commitments to underserved areas of the state totaled more than \$4.8 billion. More than \$2.6 billion was in the California Urban Real Estate Program. In addition to the California Initiative with \$1 billion in commitments, other AIM fund commitments and investments totaled almost \$900 million in historically under-capitalized areas. Fixed income had commitments and investments of more than \$312 million to underserved areas as well.

### **Inflation-Linked Asset Class**

As the 2007-08 fiscal year closed, we were moving forward with a new asset class to diversify the portfolio, provide a hedge against inflation, and generate a targeted average annual return of 5 percent over the rate of inflation. By late spring 2008, we had \$1.4 billion invested in commodities tracking the

S&P GSCI, an index weighted for 24 commodities including oil, industrial and precious metals, agriculture, and livestock. Overall, the young Inflation-Linked Asset Class returned 23 percent over nine months during the 2007-08 fiscal year, including returns for inflation-linked bonds and forestland. On June 30, 2008, we had \$4.7 billion invested in the new asset class, or 2 percent of total CalPERS market assets.

Our long-term strategy is to deploy capital where it's needed in this sector on an opportunistic, deal-driven basis. Our challenge is to identify those compelling opportunities, participate in public-private partnerships as a mechanism to creatively address infrastructure needs, and make sure to safeguard public sector jobs in related projects.



## Strengthening Enterprise-wide **Operations** ↗

### **Managing Risk**

We're meeting our obligations today, and will meet them tomorrow. We manage the risk and volatility of assets and liabilities, and ensure sufficient funds are available to pay benefits, as well as minimize and stabilize employer contributions.

## Strengthening Enterprise-wide Operations

During the 2007-08 fiscal year, CalPERS moved forward with several enterprise-wide projects designed to prepare us for tomorrow. Many of these initiatives focused on adding value to the services we provide. We made significant progress in creating our integrated technology platform; established new protocols to protect confidential information; and took several steps to enhance our organizational effectiveness. Driving all of the year's accomplishments was our unwavering commitment to the future sustainability of CalPERS and the protection of the benefits that members and employers count on now and in the future.

### A Technology System for the Future — my|CalPERS

One of the most vital and far-reaching ways we are preparing for tomorrow is through the creation of an integrated technology platform — my|CalPERS — which will replace our aging stand-alone “legacy” mainframe-based information technology system. Members have been using my|CalPERS since June 2007, and they have enjoyed the convenience of being able to view all their health and retirement information in one place.

As development of my|CalPERS continues, its functionality will be extended to employers, business partners, and CalPERS staff. When my|CalPERS is fully operational, it will eliminate processing time for enrollments and other requests, providing both employers and our staff access to real-time data about each member. Additionally, many of the administrative functions that our staff currently perform for members and employers will become self-service. This will enable us to offer increased analytical and planning capabilities.

During the year, we made significant progress in achieving our goal of full implementation of my|CalPERS. Thanks to the hard work of more than 90 business and technical employees, we

completed the general system design as well as the second phase of the technical architecture that forms the foundation for the system.

We recognize that my|CalPERS will transform the way everyone does business with our organization. Since members are already familiar with my|CalPERS, our focus this year was on preparing employers and CalPERS staff for the coming changes.

Last year, we created an Employer Advisory Group (EAG) to provide the my|CalPERS team input in the areas of system design, business processes, and implementation readiness. The EAG is composed of representatives from a broad spectrum of employers, and it served as a sounding board as we explored new approaches to reporting. The my|CalPERS team met with the EAG several times during the year to ensure that employers' needs are fully addressed.

We are also taking steps to assist employers in understanding how my|CalPERS will impact their reporting procedures and to inform them about changes they may need to make to their internal systems. Our new Public Employer Readiness Team (PERT) provides employers information about my|CalPERS implementation requirements and timeframes. As the fiscal year ended, PERT was preparing to issue a series of documentation and communication messages and planning several Web conferences for employers.

When my|CalPERS is fully implemented, it will affect the way many of our employees do their jobs. Our Enterprise Transition Management Project (ETM) is addressing the “people side” of my|CalPERS to prepare employees for the coming changes. Working with managers and supervisors, ETM developed an employee skills inventory that established a baseline measure of existing skills to assist with the identification of overall training needs. ETM also created a Preliminary Management Plan to transition our organization to the new business environment.



## Privacy Protection and Security

We recognize that members and employers depend on us to protect the privacy and security of confidential information. This responsibility has become more complicated — and more imperative — as our business processes are increasingly automated and Web-based. Evaluating and strengthening the ways we safeguard confidential information was at the forefront of our activities during the year.

Early in the fiscal year, we established the Privacy Protection & Security Task Force to provide guidance, input, and direction on privacy and security issues across our organization. The Task Force employed a dual approach to improve information security. First, they conducted a system-wide review of the way CalPERS manages confidential information and made recommendations on steps we can take to enhance data security. The Task Force then contracted with a privacy and security consulting firm to conduct a comprehensive enterprise assessment of our information security processes, policies, and procedures as compared to industry best practices.

The Task Force took the lead in creating programs to educate staff about protecting confidential information. In April 2008, an all-employee security forum emphasized the role of each employee in creating a culture of security. In addition, all employees were required to complete a Web-based information security training program. We also launched an employee security education and communication awareness campaign — Work Safe, Work Secure — which used posters, newsletter articles, and e-mail tips to stress the importance of protecting member information.

Other steps we took to augment security included implementing Regional Office protocols regulating the use of public counters and physical space and developing an enterprise vision to guide, support, and sustain future security enhancements.

To further strengthen security when members use myCalPERS, we added the capability for users to create eight- to 12-digit passwords with a mix of alphanumeric characters. We also incorporated Personal Security Icons and Personal Messages that members see when they log in to myCalPERS. These let members know that they are at the authentic CalPERS Web site and not an imposter site.

## Employee Satisfaction

Every two years, we conduct an employee survey to monitor employee satisfaction and identify ways we can improve our organization. The 2007 online survey had a participation rate of 78 percent — the highest ever. The survey showed that employees are generally highly satisfied working at CalPERS. A large number indicated that they feel CalPERS has a strong customer orientation and is responsive to customer needs. Employees also recognize that CalPERS provides advancement potential and career development opportunities.

To address employees' concerns about their often heavy workloads, we established a Managing Workload Task Force. The Task Force began developing a process for enterprise priority-setting and decision-making to manage the multiple, competing priorities facing CalPERS. As the fiscal year ended, the Task Force had identified a methodology and shaped a process for reviewing the impact of new work initiatives, discussing solutions, and making recommendations to Executive Staff on enterprise priority changes. In addition to promoting better enterprise communication, the process will allow new projects to be evaluated against existing work priorities.

### Organizational Effectiveness

During the year, several of our divisions completed activities that enhance our organizational effectiveness and prepare us for the opportunities of tomorrow.

In March 2008, we launched the Enterprise Management of Billings, Accounts Receivable, and Collections (EMBARC), which standardizes, automates, and centralizes the accounts receivable system. Invoices now have a consistent format, while accounting and payment history are housed in a single system.

Our Enterprise Compliance Office (ECOM) ensures that all of our business operations comply with laws, regulations, Board of Administration policies, and industry best practices. By the end of the fiscal year, the office completed the first enterprise-wide Compliance Risk Assessment. This involved collecting risk assessment reports from all divisions, reviewing the assessments, and identifying best practices as well as some potential areas of non-compliance. ECOM also hosted the first International Conference for the Council of Chief Compliance Officers.

The Office of Audit Services conducts internal audits and field reviews of our contracting employers. These audits increase assurances that CalPERS assets are safeguarded, that operating efficiency is promoted, and that compliance is maintained within prescribed laws, rules, and policies. The office's accomplishments for the year included developing initiatives to improve auditor recruitment/retention and contracting with seven firms to perform real estate compliance audits for the Board of Administration. The office conducted 53 public agency reviews, offering more than 320 value-added recommendations. It also completed 32 health, real estate, and other contracted audits; provided consultation on 10 special projects; and

performed 33 internal audits, offering more than 200 value-added recommendations for improving internal controls.

### Diversity Outreach Program

Diversity has long been a fundamental business philosophy of CalPERS. A diverse workforce provides our organization with a variety of perspectives that enable us to more effectively serve our diverse customer base.

Over the past year, the CalPERS Diversity Outreach Program (CDOP) implemented a diversity education and awareness campaign to foster a positive work environment in which employees treat each other with dignity and respect. CDOP also partnered with the All Staff Training and Development Division to bring State-mandated classroom-based sexual harassment prevention training to Board Members, Executive Staff, managers, and supervisors. Although training is not mandated for other employees, we required all staff to complete a Diversity Education Webinar provided through our internal intranet site.

The Diversity Outreach Committee is a key part of CDOP's internal diversity efforts, and this year, the committee achieved all branch division representation. The committee again hosted an Annual Cultural Diversity celebration, which gave employees a chance to learn about the rich cultural traditions represented in our workplace. Other internal outreach efforts sponsored by CDOP were the third annual Disability Awareness Fair and quarterly brown bag lunches featuring speakers who addressed a variety of diversity-related topics.

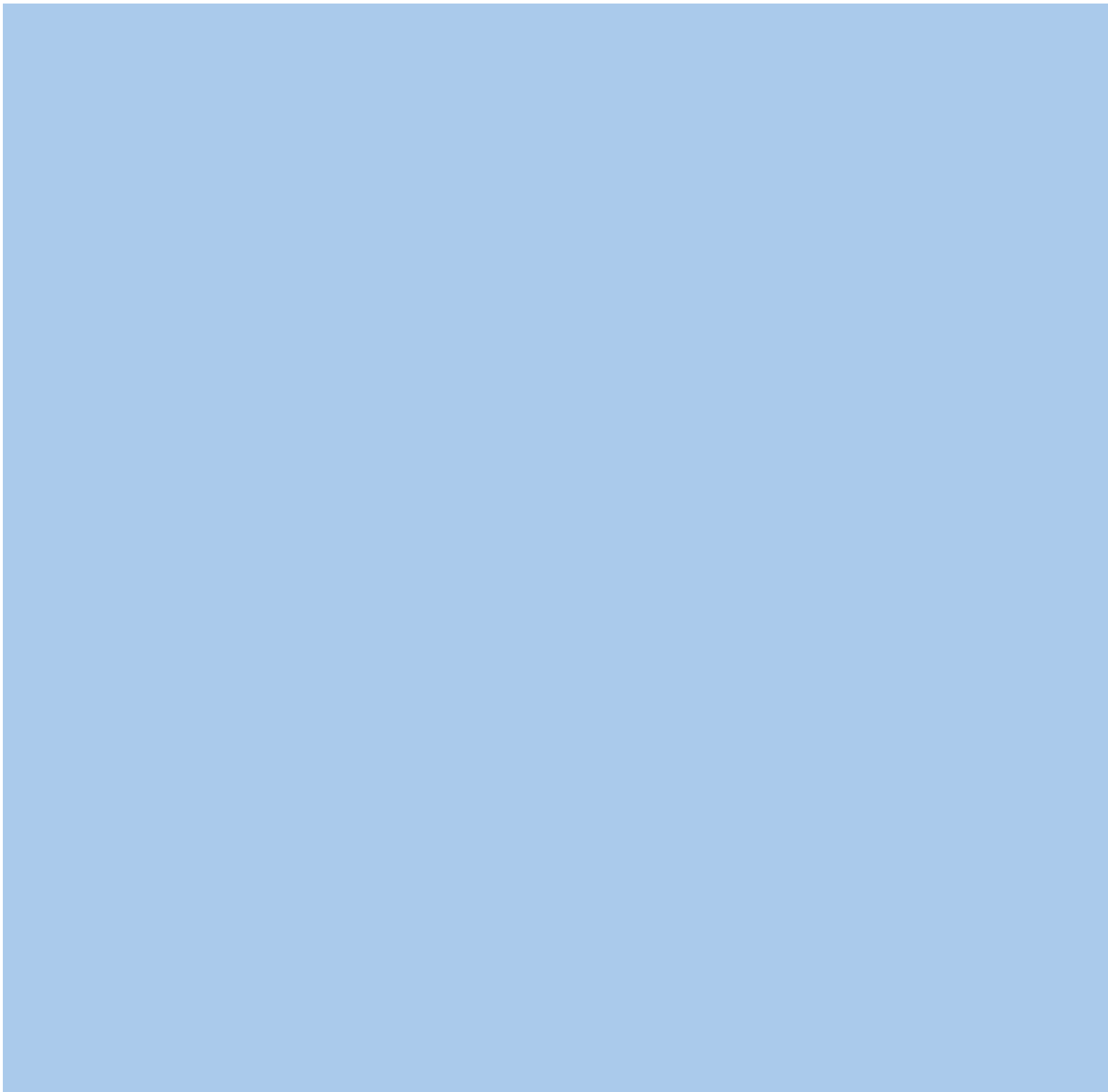
Diversity is also important in our procurement of goods and services. The CalPERS Business Connection (CBC) helps Small Businesses (SBs)

and Disabled Veteran Business Enterprises (DVBES) to successfully participate in CalPERS contracting opportunities. This year, the CBC conducted outreach to more than 3,500 small and disabled veteran businesses. Internally, CBC sponsored forums to educate employees about its goals.

Diversity in investing contributes to our bottom line by allowing us to take advantage of a wide range of experience and perspectives. To promote diversity investing, we funded the first emerging manager fund-of-funds and instituted an outreach program to learn about the capabilities of various firms.

In addition, we worked with the California State Teachers' Retirement System (CalSTRS), to create

the first-of-a-kind database of emerging managers and financial service providers. The database contains information on more than 1,000 money managers, private equity funds, private equity fund-of-funds, private real estate investment firms, hedge funds, broker dealers, and other potential investment partners. In the near future, we will expand the database to include customizable reporting tools, manager evaluation and analysis, manager rankings, and community-based tools to facilitate knowledge sharing. To assist our business partners in their diversity investing efforts, we make the database available through our Web site, [www.calpers.ca.gov](http://www.calpers.ca.gov).







## State & Federal Legislative **Update** ↗

### **Protecting Members' Interests**

We work to protect the interests of our members, advocate on their behalf, and educate our constituencies about new laws.

## State & Federal Legislative Update

This past fiscal year the CalPERS Board of Administration worked with staff and stakeholders to develop legislative positions and proposals that best served the interests of members and employers. Using its Legislative Policy Standards as a guide in formulating positions, the Board supported or sponsored legislation that provided improvements to benefits or enhanced program design.

### State Legislative Update

The following is a brief summary of some of the CalPERS-related legislation enacted during the 2007-08 session of the California Legislature. New laws become effective January 1, 2009 unless otherwise noted.

#### **AB 545, Chapter 626 (Walters)**

Allows CalPERS to process applications to purchase service credit for active duty military leave by members of the Judges Retirement System II, to comply with the federal Uniformed Services Employment and Reemployment Rights Act.

#### **AB 1203, Chapter 603 (Salas)**

Prohibits a noncontracting hospital that fails to contact a health care service plan to provide post-stabilization care from billing the enrollee for post-stabilization care, except for applicable copayments, coinsurance, and deductibles, unless the patient assumes financial responsibility for the care, as specified, or the hospital is unable to obtain the health care service plan's name and contact information, as specified. The bill would delete the requirement that a health care service plan contacted for post-stabilization care authorization discuss the enrollee's medical record with an appropriate hospital representative and would instead require the noncontracting hospital's representative, upon receiving authorization for post-stabilization care, to request

the patient's medical record from the patient's plan or its contracting medical provider. In addition, the bill would specifically require that a health care service plan, or its contracting medical providers, provide 24-hour access for noncontracting hospitals to obtain timely authorization for post-stabilization care, as specified.

#### **AB 1844, Chapter 369 (Hernandez)**

(1) Establishes a definition of, and penalties for, fraud when done so in connection with benefits, or an application for benefits, administered by CalPERS, CalSTRS or '37 Act County System. (2) Allows CalPERS investigators increased access to information maintained by the EDD or by the workers' compensation insurers with respect to an investigation of benefit eligibility or unlawful application for, or receipt of, benefits. (3) Requires public agencies to report electronically the most current actuarial valuation within nine months of end of fiscal year to the State Controller. Also requires the State Controller to develop a cost-effective procedure to collect and report this information and post on the Controller's Web site. (4) Requires the State Controller to publish its annual report on financial condition of all State and local public retirement systems within 12 months of receiving information from systems and agencies, but no later than 18 months after the end of the fiscal year.

#### **AB 1874, Chapter 322 (Coto)**

Expands the Board of Directors of the State Compensation Insurance Fund from five to 11 members, specifies by whom each member must be appointed, term limits, and eligibility and training requirements. Also authorizes annual compensation of \$50,000 and excludes directors from the Public Employees' Retirement System.



**AB 1936, Chapter 191 (Emmerson)**

Authorizes a nonprofit mutual water company to enter into a contract with CalPERS for participation of the agency's employees as members of the System if the agency obtains a ruling from the U.S. Department of Labor defining it as a public agency. Company must also comply with the Public Records Act and the Brown Act to qualify as a public agency.

**AB 2023, Chapter 370 (Houston)**

Requires the granting of disability retirement benefits to public employees in California be based solely on competent medical opinion, and expressly prohibits personnel, disciplinary, or other ancillary considerations as the basis for granting these benefits.

**AB 2156, Chapter 74 (Hernandez)**

Clarifies eligibility for the special death benefit by stating that an injury that results in a persistent vegetative state lasting until the member's death qualifies that member's dependents for the special death benefit and continued health coverage.

**AB 2202, Chapter 261 (Caballero)**

(1) Requires every State agency, school employer, or contracting agency of CalPERS to provide to the board, upon request, information regarding its employees who are not enrolled as members of CalPERS; and (2) would allow CalPERS to enter into an agreement with a public agency to terminate a portion of its contract with respect to inactive member groups and merge the inactive member group plan into the terminated agency pool.

**AB 2287, Chapter 455 (Evans)**

Requires an employer to notify CalPERS of the death of a firefighter or peace officer within 10 business days of the employee's death, rather

than the 10 calendar days required by existing State law. It also makes technical, clarifying changes to the definition of a surviving spouse.

**AB 2838, Chapter 470 (Duvall)**

Allows a member to purchase service credit for an unpaid, approved leave of absence caused by a serious illness, upon their return to active service.

**SB 608, Chapter 1 (Wiggins)**

Restores in statute, the ability of judges who have attained the minimum age for service retirement with at least 20 years of service, to irrevocably elect to designate their spouse to receive an optional settlement in lieu of a pre-retirement death benefit, under the same provisions of law in effect prior to January 1, 2005, which provides the surviving spouse a monthly allowance equal to the actuarial equivalent of the member's earned retirement. Also honors elections made by judges between January 1, 2003 and January 1, 2007 that designated their spouse or someone other than their spouse to receive this specific pre-retirement optional settlement.

**SB 1123, Chapter 371 (Wiggins)**

Requires State and local legislative bodies, including community college districts, to review the impact of future annual costs associated with Other Post-Employment Benefits (OPEB) increases before their approval. These actuarial impact statements must include normal cost and any additional accrued liability, produced by an actuary, signed by the agency chief executive officer, and made public at a meeting of the legislative body at least two weeks prior to its adoption. It also requires an actuary to attend the meeting where the adoption of a new pension benefit or OPEB is considered, and prohibits the legislative body from approving new benefits or benefit increases

by means of a consent calendar. In addition, the bill creates a California Actuarial Advisory Panel to provide impartial and independent information on pensions, OPEB benefits, and best practices to the public agencies.

**SB 1472, Chapter 353 (Ashburn)**

Expands eligibility to apply for a Career Executive Assignment (CEA) position to individuals who have previously had civil service status, or to those who were employed by the legislature for two or more years. This expanded eligibility would lapse on January 1, 2013 unless extended by the legislature. Additionally, the bill would modify the final compensation calculations for these individuals.

**SB 1496, Chapter 408 (Ashburn)**

Clarifies the criteria the Department of Personnel Administration (DPA) can use to limit eligibility for membership in the CalPERS State Peace Officer/Firefighter classification. DPA can limit eligibility of excluded and exempt State employees who meet the statutory definition of peace officer to those employees whose primary responsibilities consist of (1) direct supervision of State peace officer/firefighter personnel; (2) conducting investigations or audits within the Department of Corrections and Rehabilitation; or (3) the administration of State program functions or units primarily engaged in active law enforcement or fire suppression. In addition, it requires the DPA to provide annual reports to CalPERS and the legislature regarding these determinations.

**Federal Update**

The Board of Administration is committed to ensuring that the interests of the System are addressed by Congress and a wide range of federal agencies. Over the course of the last year, CalPERS was actively involved in a diverse range of national issues — including compliance with the provisions of the historic Sarbanes-Oxley Act, Medicare payments, nominees to the Securities and Exchange Commission (SEC), and marketplace issues related to generic biopharmaceutical drugs.

CalPERS has long been recognized as a national leader in an ongoing effort to increase corporate accountability and to ensure responsible corporate management. That commitment, which is central to our agenda as a shareowner, also drives federal legislative and regulatory priorities. While recognizing the unique needs of smaller public companies, we continued to press the Public Company Accounting Oversight Board (PCAOB) and the SEC to require all companies — regardless of their size — to comply with the auditing standards required by the Sarbanes-Oxley Act of 2002. In meetings with key Members of Congress, members of the Board of Administration were assured that attempts to secure further extensions from full compliance would not be approved.

From our perspective, it's important that members of the SEC appreciate the important goals and objectives of institutional investors. Earlier this year, the U.S. Senate was asked to confirm three new members — a majority of the five-member commission — based on nominations submitted by President Bush. As part of that confirmation process, CalPERS met with leaders of the Senate Banking Committee, their staff, and other allies to encourage

the confirmation of candidates that would understand and support fundamental shareowner rights. For example, CalPERS continues to work with the SEC to secure shareowners' right to nominate candidates for corporate boards of directors and a wide range of other priorities.

Congress continues to turn to CalPERS for information and guidance on difficult investment-related issues. The Senate Committee on Banking, Housing, and Urban Affairs invited CalPERS to testify at a hearing at which the committee was examining the U.S. Regulatory Framework for Assessing Sovereign Investments. We described the scope of the System's corporate governance program, including CalPERS commitment to a transparent investment process that includes the public disclosure of investment policies and procedures; actual investments and their performance; and the policies and procedures for the operation of the Board's Investment Committee.

As gasoline prices skyrocketed, responsible investors in the commodity futures market were unfairly accused of contributing to escalating prices by engaging in speculative investment practices. Once again, CalPERS was instrumental in educating Congress regarding the nature of institutional investors' engagement in these markets. We worked with congressional committees and other institutional investors to set the record straight and to preserve the Board of Administration's authority to responsibly access investments that are in the best interest of the System.

Major national health care reform remains a priority of the CalPERS Board of Administration. As a result, our Board continued to work with members of the California Congressional Delegation,

key congressional leaders, and other public sector health care purchasers to set the stage for meaningful legislative action in the 111th Congress. In addition, CalPERS pressed for incremental reforms that would increase value, improve quality, and expand coverage. For example, this year we participated in a successful effort to require the implementation of e-prescribing. It's estimated that thousands of deaths occur each year in the U.S. due to medication errors. These errors are predominately due to hand-writing illegibility, wrong dosing, and missed drug- or drug-allergy reactions. A prescriber's ability to electronically send an accurate, error-free, and understandable prescription directly to a pharmacy from the point-of-care is an important element in improving the quality of patient care.

This year also saw important progress toward the adoption of Health Information Technology (Health IT). With active support from CalPERS, committees in both the U.S. House and Senate passed comprehensive bipartisan Health IT legislation. Health IT is widely viewed as a major component of the foundation upon which national health care reforms can be built.

We continue to seek congressional support for legislation that would authorize the U.S. Food and Drug Administration to establish a pathway for the approval of generic biopharmaceutical drugs. The key question in this debate results from how many years a brand name drug manufacturer should benefit from patent exclusivity. In other words, how long should a generic drug manufacturer be prevented from producing a generic version of the same drug? Since competition from generic drugs is an important component of controlling drug costs, resolving this

question is fundamental to reducing health plan costs. The current debate in Congress ranges from 14 years to seven years — the U.S. Senate has considered a 12-year exclusivity period.

CalPERS has also taken a lead role in a growing national debate over how to properly value the liabilities of public retirement plans. Private sector actuaries and some economists have argued that all pension plans should follow exactly the same disclosure procedures regardless of the fundamental

differences between public and private sector accounting rules. Over the years, these differences have been clearly articulated by the Governmental Accounting Standards Board. Several members of our Board, including State Treasurer Bill Lockyer and State Controller John Chiang, have urged the American Academy of Actuaries not to change the disclosure rules that currently apply to public retirement systems.

An abstract background featuring vibrant green and teal colors with dynamic, blurred light streaks and lens flare effects, creating a sense of forward motion and energy.

## The Year Ahead ↗

### **Meeting Obligations**

CalPERS is resilient. We've provided pension benefits since our inception during the Great Depression. We've never missed a benefit payout. We are a buy-and-hold, long-term investor, and our long-term horizon enables us to be patient.

## The Year Ahead

As we move into the new fiscal year, addressing the challenges created by the weakened economy and financial markets will be at the forefront. We will face these challenges with the same commitment that has served us so well in the past, and we will take advantage of current market opportunities that will maximize our strength in the future. We will maintain our focus on long-term growth and value. We will use our voice to help shape market reforms with an eye toward improving regulatory frameworks, corporate responsibility, executive compensation, shareowner rights, environmental corporate transparency and best practices in diversity on corporate boards. In doing so, we will be poised to respond when the market recovers.

The final preparations for the implementation of myCalPERS will get underway. With myCalPERS, we are building a system that will take us into the future and reinforce our capacity to meet the changing needs of members and employers. When myCalPERS is fully operational, it will bring about a major shift in the way all of our partners interact with our organization.

Our Public Employer Readiness Team (PERT) will take a number of steps to ensure that employers are prepared to transition to myCalPERS. PERT is planning several Web conferences and communication programs that will address employer reporting methods; changes to business rules and policies; and information about how employers can prepare to test their electronic file format (if applicable). In 2009, PERT will begin to focus on employer staff training.

During the year, we will accelerate activities to prepare our staff for the launch of myCalPERS. Our Enterprise Transition Management Project (ETM) will assist in establishing a consistent structure to be

used for all program area training. Following a review of each division's training, ETM will develop plans to transition all current training into the new structure. ETM will also establish a transition management plan for each division to address the impact of myCalPERS and to identify activities that will support employees in succeeding in the new environment. Another activity of ETM will be creating a step-by-step staffing plan to provide managers the information necessary to make decisions and prepare for changes in their units.

In addition to the groundbreaking introduction of myCalPERS, we are continually seeking new ways to meet the diverse needs of members and employers. A key focus during the coming year will be helping members make wise retirement decisions by providing planning tools that are convenient and easy to use. We will expand our online and instructor-led financial planning classes to provide more relevant retirement guidance to members at various career stages.

Beginning in January 2009, all Regional Offices will offer members pre-scheduled appointments five days a week, as well as walk-in appointments. This will increase the value of such appointments, as staff will be better prepared to assist members with their individual needs. Additionally, our Sacramento Regional Office will expand its educational outreach services to the Northern California region.

Our annual Retirement Planning Fairs are a key source of information for members. By June 30, 2009, we hope to increase attendance at the annual events by 50 percent over the 2005-06 attendance numbers. Our ultimate goal is to offer all members an opportunity to attend a Retirement Planning Fair by holding events in all counties by fiscal year 2010-11.



To ensure that employers and their staff have the tools necessary to understand “how to do business with CalPERS,” we will expand the online courses offered through the CalPERS Education Center (CEC). New courses will address the Automated Communications Exchange System (ACES), contracting, membership, payroll reporting, special compensation, and the employer’s role in employee benefits. The CEC will make employer education easier by using technology that integrates new multi-media features and reinforces learning at a self-paced level.

Further strengthening our privacy and security processes will continue to be a key focus during the year. The enterprise vision that was created this past year will guide, support, and sustain future security enhancements.

In the health arena, we will maintain our ongoing collaboration with key stakeholders to seek ways to reduce costs, enhance quality, and improve transparency. In April 2008, we surveyed our health plans regarding their Health and Disease Management programs, and in the coming year, we will explore ways to ensure consistency of these programs. We will develop a wellness incentive program for PPO plans that encourages members to take an active role in their health by using health assessments to create personalized plans for improvement.

We will begin to evaluate the feasibility of participating in a pilot e-prescribing project for our self-funded health plans. Electronic prescribing is the computer-based transmission of prescriptions between health care professionals and pharmacies. It decreases the potential for prescription errors caused by hard-to-read handwriting and automates the process of checking for drug interactions and allergies.

As a result of the recommendations of the security consulting firm that evaluated our internal processes, we will begin to create an enterprise-level Privacy and Security Program. This new office will eliminate the current fragmentation of responsibilities by clearly defining roles and consolidating accountability for protecting privacy and security. Guided by the enterprise vision developed this past year, the new office will establish an overall operating plan; design a governance structure to improve decision making; and begin implementing new protocols to ensure the reduction of risk to all CalPERS assets whether informational, physical, or financial.

Our Enterprise Compliance Office (ECOM) will identify all security and privacy activities that may affect the confidentiality of CalPERS physical, informational, and financial assets. The office will establish an “Ethics Help Line” for both employees and external partners, which will include documentation, escalation, monitoring, and reporting components. Additionally, ECOM will develop an education plan for employees that will support the monitoring and reporting of incompatible activities.

## Environmental Stewardship

CalPERS is committed to sustainability. The Fiscal Year 2007-08 CalPERS Comprehensive Annual Financial Report and Operations Summary are printed on Mohawk Options 100 percent postconsumer paper, which is made with process chlorine free 100 percent postconsumer recycled waste fiber. The paper is certified by Green Seal<sup>1</sup> and the printing process we utilized complies with the Forest Stewardship Council (FSC) chain-of-custody certification.<sup>2</sup> The paper was also manufactured using non-polluting, wind-generated energy.

This project used 15,925 pounds of 100 percent postconsumer recycled waste paper. The savings derived<sup>3</sup> from using this paper in lieu of virgin fiber paper is equivalent to:

- 153 trees not cut down;
- 441 lbs. of waterborne waste not created;
- 65,480 gallons of wastewater flow saved;
- 7,185 lbs. of solid waste not generated;
- 14,148 lbs. of net greenhouse gases prevented; and
- 108,290,000 BTUs of energy not consumed.

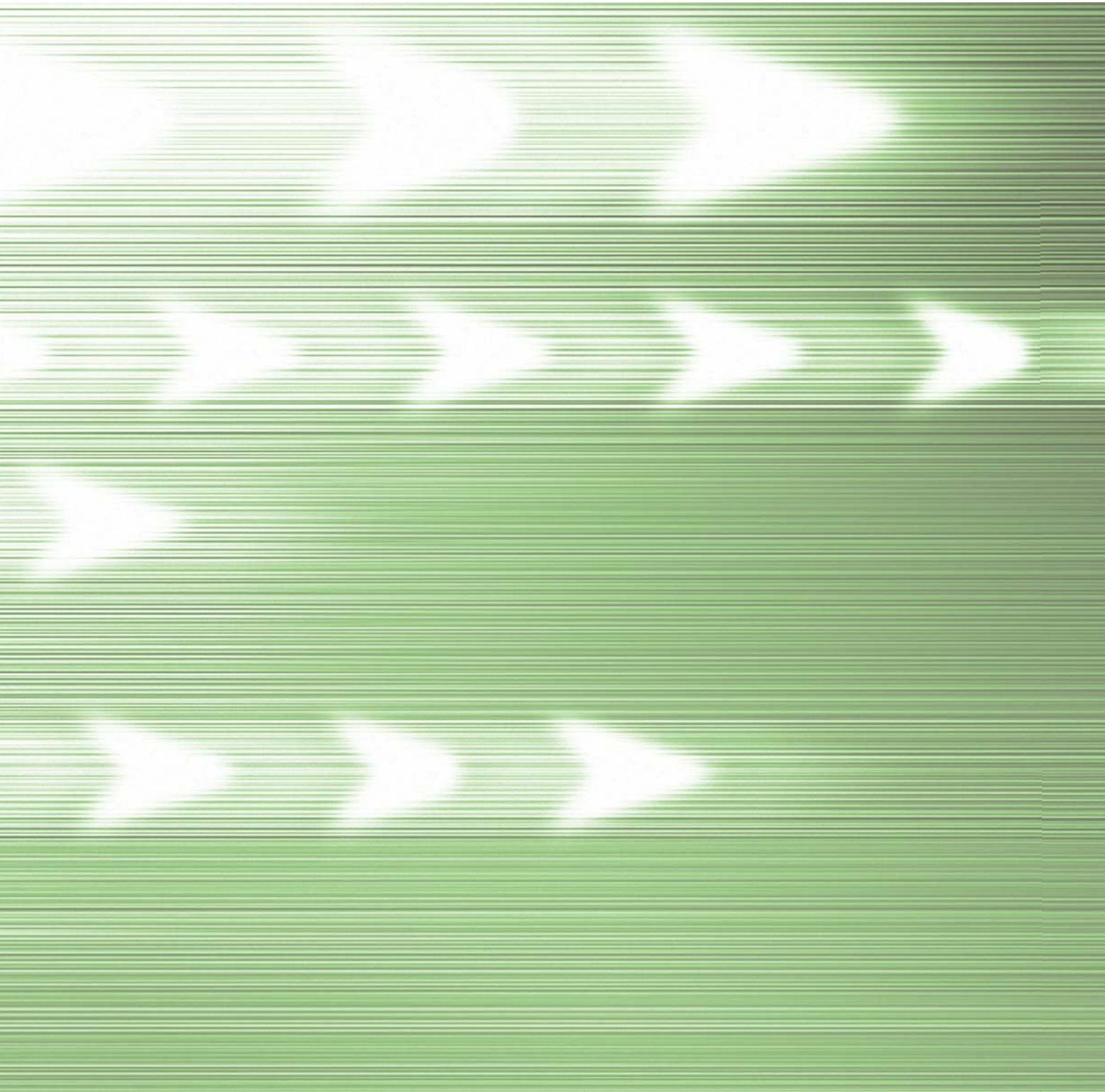
Savings from the use of emission-free, wind-generated electricity are equivalent to planting 497 trees or not driving 7,963 miles.



- <sup>1</sup> Green Seal is a non-profit organization dedicated to setting environmental standards, product certification, and public education. For more information, see [www.greenseal.org](http://www.greenseal.org).
- <sup>2</sup> FSC is an independent, non-governmental, not for profit organization that promotes environmentally appropriate, socially beneficial, and economically viable management of the world's forests. FSC maintains an international certification and labeling system for products that come from responsibly managed forests and verified recycled sources. According to their Web site, [www.fscus.org](http://www.fscus.org), forests are certified against a set of strict environmental and social standards, and fiber from certified forests is tracked from the forest, to producers, to the customer.
- <sup>3</sup> Values were derived from Mohawk Papers Interactive Environmental Savings Calculator available at [www.mohawkpaper.com](http://www.mohawkpaper.com).

Please recycle.





CalPERS

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